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SUBJECT: Staffdel Meacham visit to Uruguay

SUMMARY

¶1. (SBU) SUMMARY: Staffdel Meacham visited Uruguay May 26-28 to explore ways to expand trade and political ties with Uruguay. GOU officials expressed their interest in continuing and strengthening ongoing Trade and Investment Framework Agreement (TIFA) discussions. GOU officials emphasized their hope that the U.S. will clear away sanitary-phytosanitary barriers for Uruguay lamb and citrus in the U.S. market. If the U.S. Congress looks into inclusion of Uruguay in a trade preference program in the medium term, the GOU believes this would help Uruguayan exporters of wool textiles and wool apparel, sectors that have been hit severely by the worldwide economic slowdown.
END SUMMARY.

¶2. (SBU) Carl Meacham, Senior Advisor for Senator Richard Lugar, and WHA/BSC Deputy Director Bruce Friedman met with the Ministries of Foreign Affairs; Economy and Finance; and Industry as well as trade officials, legislators, and representatives from the private sector during their three-day stay in Montevideo.

Foreign Minister Gonzalo Fernandez

¶3. (SBU) Foreign Minister Gonzalo Fernandez emphasized that during his participation in the June 4-5 Trade and Investment Committee meeting in Washington, he wanted to make as much progress under the Trade and Investment Framework Agreement as possible, as his time in office was drawing to a close. That meeting will include discussion of sanitary-phytosanitary issues (Uruguayan boneless lamb and citrus, and U.S. beef and poultry). On possible future inclusion in a U.S. trade preference program, Minister Fernandez explained that U.S. trade preferences for textiles and apparel would have a dramatic positive economic impact on Uruguay but very small effect on U.S. producers.

¶4. (SBU) Uruguay needs to diversify its markets and commercial ties, the Foreign Minister noted that the benefits Uruguay gained as a member of Mercosur were consolidated 8-10 years ago. Today Mercosur is not progressing, but regressing. He cited Argentina's refusal to approve the use of three years of FOSEM funds (Structural Convergence Funds from Mercosur) to finance the electrical grid interconnection project between Brazil and Uruguay. Fernandez pointed out that this was the first time FOSEM funds were blocked by a Mercosur

member for political motives (Argentina's dispute with Uruguay over the Botnia pulp mill).

Ministers Garcia and Martinez

15. (SBU) Minister of Economy Alvaro Garcia and Minister of Industry Daniel Martinez each underscored the importance to Uruguay of helping the textile and apparel sectors. Garcia described these sectors in Uruguay as traditional, focused on a high quality product with China competing from below and Italy firmly installed at the top of the market. Garcia stressed that the GOU sought to maintain the greatest amount of space possible for the textile and apparel industries, which provided much needed employment. Garcia said Mercosur is troubled. It would not be an impediment to future trade agreements or U.S trade preferences.

GOU OFFICIALS LAMBAST MERCOSUR AND SAY FTA IS POSSIBLE

16. (SBU) Other senior officials (past and present) were also critical of Mercosur and the limitations it imposes on Uruguay. Uruguay's Senior Trade Negotiator Alvaro Ons described Uruguay as the only disciplined member of Mercosur, and that Argentina's economic policy posed real challenges. He stated that the textile and apparel sectors represented the greatest potential for immediate economic impact.

17. (SBU) Former head of Macroeconomic Planning Division at the Ministry of Finance (and currently campaign Manager for Danilo Astori's campaign to be the Frente Amplio party's candidate for President) Fernando Lorenzo said Uruguay was at the most frustrating point in what has been a frustrating period with Mercosur. He said U.S. market access for the textile and apparel sectors would be an important signal to Uruguayans that there are opportunities outside of Mercosur. Uruguay's ongoing disputes with Argentina were affecting bilateral relations in other areas as well, he said.

18. (SBU) Lorenzo said that Uruguay must conserve trade preferences it receives through Mercosur that represent 25% of exports, while opening markets abroad. He advocates that Uruguay work during its turn as Mercosur President for an agreement for members work on key issues at variable speeds. A first step would be to reduce common external tariffs, to give Paraguay some fiscal breathing room.

A VOICE OF OPPOSITION

19. (SBU) Frente Amplio Senator Alberto Couriel, a member of Presidential hopeful Jose Mujica's MPP bloc, was more skeptical of the possibility of strengthening commercial ties with the U.S., noting that negotiations could harm relations with Brazil and Argentina, Uruguay's two main trading partners and a key source of tourism revenues. He cautioned though, that despite a general global economic opening in the 1990's, the U.S., Europe and Japan continued to employ tariffs and quotas, especially on agricultural goods Uruguay's major export products.

FORMER TRADE NEGOTIATOR WEIGHS IN

10. (SBU) Isidoro Hodara was skeptical about the TIFA and viewed it as an upside show. He was also skeptical about the US's chances to grant a special treatment to Uruguay's producers of textiles and apparel. An adamant advocate of an FTA between Uruguay and the United States, Isidoro Hodara highlighted the need to keep the sacred

fireQ of a bilateral FTA QaliveQ and be ready for any window of opportunity that may arise. Hodara --who is the Vice President of UruguayQs leading business park -- was the coordinator of the US-Uruguay Joint Commission on Trade and Investment (JCTI) during the Jorge Battle administration (2000-2005). 11. (SBU) Hodara was particularly grateful to Senator Lugar, who in 2002 sponsored a bill (supported by nine other senators) to start the negotiation of a free trade agreement with Uruguay.

TEXTILE INDUSTRY MEETINGS

¶11. (SBU) In a meeting with the Apparel Chamber and the Uruguayan Textile Association, textile industry representatives emphasized that although their products do not compete with U.S. products, Uruguay cannot enter the U.S. market because it cannot compete with countries who have trade preferences with the U.S. Visits to apparel manufacturer, Welcolan S.A., and textile factory, Hisud S.A., produced similar stories of a declining industry primarily based on inability to compete with countries that have U.S. trade preferences and lower labor costs. Neighboring ArgentinaQs recent moves to close off its economy, MercosurQs inaction on lowering tariffs, and the global economic crisis has also negatively impacted the industry. The Uruguayan textiles sector currently employs 5,000 workers and it is based on the production of wool-based fabrics.

MEACHAM VISITS BINATIONAL CENTER

¶11. (SBU) Maria Blanco Pate, the Director of MontevideoQs Binational Center (known locally as the Alianza), gave Meacham a half-hour tour of her classrooms, offices, and library, and hosted a luncheon in his honor. Guests included members of the AlianzaQs staff and board of directors, whose ranks include local businessmen, educators, and cultural figures. Blanco was eager to build on the good will and dialogue she began in early May, when she traveled to Washington and met Senate Foreign Relations staffer Paul Foldi. At the time, Foldi and Blanco discussed an article Senator Lugar wrote about American binational centers and she was eager to reciprocate his hospitality and interest with a luncheon and tour for Meacham. She liked the STAFFDELQs ideas for expanding AlianzaQs attractiveness to non-traditional audiences by popularizing American sports events, like the Superbowl, and is looking into ways of making them happen (by purchasing a cable television subscription, for example). Blanco also told Meacham about the collaboration she receives from the U.S. Embassy, such as funding for English language microscholarships directed towards poor Uruguayan students, and discussed how an infusion of resources would allow her to expand language instruction throughout Uruguay.

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